**ROOSEVELT ISLAND OPERATING CORPORATION**

(A Component Unit of the State of New York)

Financial Statements and Management's Discussion and Analysis

March 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

DADIA VALLES VENDIOLA LLP
CERTIFIED PUBLIC ACCOUNTANTS

**ROOSEVELT ISLAND OPERATING CORPORATION**
**(A Component Unit of the State of New York)**

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# INDEPENDENT AUDITORS' REPORT

The Board of Directors
Roosevelt Island Operating Corporation

## Report on the Financial Statements

We have audited the accompanying financial statements of Roosevelt Island Operating Corporation ("RIOC"), a component unit of the State of New York, as of and for the years ended March 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the RIOC's financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the RIOC's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RIOC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Roosevelt Island Operating Corporation as of March 31, 2013 and 2012, and the respective changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise RIOC's basic financial statements. The accompanying schedules listed in the Table of Contents under the heading of Supplemental Information, which are the responsibility of management, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013, on our consideration of RIOC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RIOC's internal control over financial reporting and compliance.

Elmhurst, New York
May 17, 2013

The following management's discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Roosevelt Island Operating Corporation at March 31, 2013 and 2012, and the results of its operations for the years then ended. Management has prepared the financial statements and related footnote disclosures along with this MD&A in accordance with generally accepted accounting principles as defined by the Governmental Accounting Standards Board for state and local governments. This MD&A should be read in conjunction with the audited financial statements and accompanying notes to financial statements, which directly follow the MD&A.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: *management's discussion and analysis* (this section), *basic financial statements,* and *supplemental information*. RIOC was created by the New York State Legislature in 1984 as a public benefit corporation charged with maintaining, operating, and developing Roosevelt Island. RIOC follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities of the Corporation. These statements are presented in a manner similar to a private business. While detailed sub-information is not presented, separate accounts are maintained for each fund to control and manage transactions for specific purposes and to demonstrate that RIOC is properly performing its contractual obligations.

## FINANCIAL ANALYSIS OF THE CORPORATION

## NET POSITION

The following is a summary of the RIOC's statement of net position at March 31, 2013 and 2012 and the percentage changes between March 31, 2013 and March 31, 2012:

| | 2013 | 2012 | % Change |
|---|---|---|---|
| Current and other assets | $ 45,314,018 | $ 46,439,059 | -2% |
| Capital assets, net | 68,724,541 | 67,090,562 | 2% |
| Total assets | $ 114,038,559 | $ 113,529,621 | 0% |
| Liabilities | $ 33,762,970 | $ 33,458,916 | 1% |
| Net position: | | | |
| Investment in capital assets | 68,724,541 | 67,090,562 | 2% |
| Restricted for capital projects | 10,450,427 | 11,113,352 | -6% |
| Unrestricted | 1,100,621 | 1,866,791 | -41% |
| Total net position | $ 80,275,589 | $ 80,070,705 | 0% |

On RIOC's statement of net position at March 31, 2013, total assets of $114,038,559 exceeded total liabilities of $33,762,970 by $80,275,589 (total net position). Total assets are comprised of capital assets (e.g., buildings, machinery and equipment) totaling $68,724,541, cash and cash equivalents totaling $40,740,110 and other assets of $4,573,908. Liabilities comprised of accounts payable of $809,459, unearned revenues of $29,910,944 (prepaid rents), other post-employment benefits of $2,382,670, and other liabilities totaling $659,897. Unearned revenues represent the prepaid ground rent revenue received for the Southtown and Octagon development projects that will be recognized over their respective lease terms. Of total net position, $10,450,427 is available to be used to meet ongoing capital obligations. Additionally, $1,100,621 is available for ongoing operational expenses.

Short-term investments decreased by $1,744,460 or 4%. This was mainly due to purchases of capital assets (infrastructure) totaling $5,058,492.

## OPERATING ACTIVITIES

RIOC's statements of revenues, expenses and changes in fund net position are used to report changes in the net position, including depreciation expense. Revenues reported here are based on a standard of recognition whereby revenues are recorded when earned. The statements of revenues, expenses and changes in fund net position detail program revenues by major source and expenses by natural classification and indicate the change in net position.

RIOC's total operating revenues for the year ended March 31, 2013 amounted to $21,869,710, which includes $21,572,641 in revenues identified as program revenues and $297,069 of non-program specific revenues, primarily interest income earned on investments and settlement of insurance claimed. During the fiscal year ending March 31, 2013, operating revenues increased by $1,022,807 or 5% over the last fiscal year. The increase in operating revenues is mainly attributed to the Tramway revenue, which increased by $342,952 or 8%. The increase in the Tramway revenue is due to increased rider-ships of the modernized tram system which provides higher capacity, faster, safer and smoother rides, and no downtime. In addition, residential fees increased by $233,121 or 27% primarily due to an increase in condo sales and transactions. Also, commercial rent increased by $124,897 or 10% stemming from the assignment of the commercial spaces to the master lease, which provided a steady stream of revenue. However, interest income declined by $78,230 or 30% due to the significant drop in the interest rate.

RIOC's total operating expenses were $21,664,826 in 2013 and $21,567,047 in 2012, including depreciation of $3,424,513 and $3,436,043, respectively. For the fiscal year ending March 31, 2013, total operating expenses before depreciation increased by $109,309 or 1% over the last fiscal year, which is due primarily to accruals for compensated absences.

The following summarizes RIOC's change in net position for the fiscal years ended March 31, 2013 and 2012:

| | 2013 | 2012 | % Change |
|---|---|---|---|
| Operating revenues: | | | |
| Residential fees | $ 1,111,441 | $ 878,320 | 27% |
| Ground rent | 9,356,679 | 9,174,109 | 2% |
| Commercial rent | 1,421,038 | 1,296,141 | 10% |
| Tramway revenue | 4,640,843 | 4,297,891 | 8% |
| Public safety reimbursement | 1,673,097 | 1,613,297 | 4% |
| Transport/parking revenue | 2,521,892 | 2,485,613 | 1% |
| Interest income | 185,403 | 263,633 | -30% |
| Other revenues | 959,317 | 837,899 | 14% |
| Total operating revenues | 21,869,710 | 20,846,903 | 5% |
| Operating expenses: | | | |
| Personal services | 10,008,395 | 9,795,206 | 2% |
| Insurance | 1,137,448 | 1,061,546 | 7% |
| Professional services and legal services | 670,825 | 699,139 | -4% |
| Management fees | 4,074,439 | 4,072,518 | 0% |
| Telecommunications | 115,623 | 115,029 | 1% |
| Repairs and maintenance | 281,689 | 382,153 | -26% |
| Vehicles maintenance | 350,663 | 318,719 | 10% |
| Equipment purchases/lease | 73,481 | 112,977 | -35% |
| Supplies/services | 1,051,650 | 1,039,350 | 1% |
| Other expenses | 476,100 | 534,367 | -11% |
| Total operating expenses excluding depreciation | 18,240,313 | 18,131,004 | 1% |
| Operating income before depreciation | 3,629,397 | 2,715,899 | 34% |
| Depreciation expenses | 3,424,513 | 3,436,043 | 0% |
| Change in net position | 204,884 | (720,144) | -128% |
| Capital contributions for stabilization of Renwick Ruins | - | 29,113 | -100% |
| Net position, beginning of year | 80,070,705 | 80,761,736 | -1% |
| Net position, end of year | $ 80,275,589 | $ 80,070,705 | 0% |

## CAPITAL ASSETS

The following summarizes RIOC's capital assets for the fiscal years ended March 31, 2013 and 2012 and the percentage change between fiscal years:

| | 2013 | 2012 | % Change |
|---|---|---|---|
| Seawall | $ 2,801,889 | $ 2,846,890 | -2% |
| Buildings | 12,913,630 | 12,451,326 | 4% |
| Land improvements | 6,809,287 | 6,351,161 | 7% |
| Machinery and equipment | 2,467,171 | 3,001,922 | -18% |
| Infrastructure | 43,693,442 | 42,439,263 | 3% |
| Leasehold Improvements | 39,122 | - | 100% |
| Net capital assets | $ 68,724,541 | $ 67,090,562 | 2% |

The capital assets of $68,724,541 presented in the financial statements have been depreciated using the straight-line method, effective from the date of acquisition. The increase of $1,633,979 from the prior year represents additions of new capital assets valued at $5,058,492 less depreciation expense of $3,424,513. Total depreciation expense for all capital assets amounted to $3,424,513 and $3,436,043 for the years ended March 31, 2013 and 2012, respectively. A more detailed analysis of RIOC's capital assets is presented in the notes to financial statements on pages 19-20.

## INFRASTRUCTURE ASSETS

The amounts reported in the accompanying statements of assets for the capital assets (net of depreciation) of RIOC of $68,724,541 and $67,090,562 at March 31, 2013 and 2012, respectively, do not include an amount for two infrastructure items: the bulk of the seawall, and Main Street (the road). Pursuant to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, addressing the capitalization of infrastructure assets, infrastructure assets dating from prior to 1980 are not required to be recognized. Improvements to such infrastructure items, however, are reported.

## ECONOMIC FACTORS AFFECTING RIOC'S FUTURE FINANCIAL POSITION

Six (6) of the anticipated nine (9) buildings ("Buildings") of the Southtown Development Project have been completed. The developer, Hudson/Related Joint Venture and RIOC have come to tentative terms for Buildings 7-9 as of the date of this report. Of the remaining Buildings, the Building 7 Lease Closing needs to occur before July 31, 2013; the Building 8 Lease Closing shall occur no later than 30 months after the Building 7 Lease Closing; and the Building 9 Lease Closing shall occur no later than 30 months after the Building 8 Lease Closing. Should development fail to occur within the expected timeframe, RIOC is protected by a letter of credit in the amount of

$1,420,800. RIOC believes that the development will occur as the economy recovers and the housing market rebounds.

The Modernized Tram, which was placed in service on November 31, 2010, now better meets the transportation needs of the residents and visitors: more passengers are shuttled quickly and safely; there is greater availability - the system allows for one cabin to continue operations while the other is down for preventive maintenance; and it is more reliable with redundant generators to power the system. As a result of these increased efficiencies and capabilities, rider-ship on the Tram is increasing. During the fiscal year ended March 31, 2013, Tramway revenue exceeded the budget by $493,843 or 12% (see Budget variance report - page 34). The infrastructure improvement was funded by a $15 million grant from the State of New York and $10 million from RIOC.

The Franklin D. Roosevelt Four Freedoms State Park ("Park") located at the southern tip of the island, was completed on October 17, 2012. The Park cost approximately $43,523,002. The majority of the funding came from private funds raised by Franklin D. Roosevelt Four Freedom Park, LLC, which is now a subsidiary of the Four Freedoms Park Conservancy, Inc. The State and City of New York provided $6,000,000 and $13,588,000, respectively, toward the construction of the Park; the Federal government provided $501,609. The remaining funds came from private sources. At the commemoration of the Park, Governor Andrew Cuomo announced that the Park would be part of the New York State Park System. The New York Times has lauded the Park as the "spiritual heart" of New York City, and to date the Park has seen over 40,000 visitors and an increased visitorship to Roosevelt Island.

The development of Southpoint Park is completed; the park is now open to the public. The $13,300,000 project was funded by appropriations from the City of New York for $4,500,000, the State of New York for $4,400,000, and $4,400,000 from RIOC. The park significantly enhances the availability of vibrant open space to the community, while naturally benefiting in usage from the scores of visitors that the aforementioned Franklin D. Roosevelt Four Freedoms State Park is attracting.

The revitalization of Main Street and improvement of the retail businesses are in progress. On August 1, 2011, RIOC entered into a Master Sublease Agreement with Hudson Related Retail LLC (HRR) to redevelop, improve, market, lease and professionally operate the Retail Spaces controlled by RIOC. RIOC receives an annual guaranteed rent of $900,000 - escalating by 2% annually beginning on the first anniversary of the Commencement Date for the first five years and 2.5% annually thereafter - as well as participation in the profits of the Master Sub-lessee. According to its certified financial statements as of December 31, 2012, Hudson Related Retail LLC invested $636,436 and incurred a loss of $320,279. According to the agreement, RIOC will share future profits 50/50 once HRR is paid back its investment.

On September 28, 2012, RIOC entered into a lease modification with Northtown Phase II Houses Inc. (the "Housing Company") — one of four Mitchell-Lama housing projects built on the Island — to extend the term of its ground lease until December 22, 2068. During the term of the lease, the

Housing Company will exit Mitchell-Lama and pursue an affordable home ownership plan whereby at least 65% of the 400 residential units (260 units) will either be restricted price cooperative apartments or affordable rental units (the "Conversion"). The lease provides that the Housing Company has three years from the date of the lease to execute the Conversion. Provided that this takes place, the base ground rent will increase as follows: (a) the current base rent will increase from $136,000 to $236,000 per annum — increasing by 10% on each 5th anniversary for 30 years; (b) the Housing Company will pay a transfer fee due in connection with the initial sale of each apartment equal to five percent (5%) of the unit's gross sales price — but not to exceed $4,500,000 in the aggregate; (c) for any resales following such initial sales the seller will be obligated to pay RIOC one percent (1%) of the unit's gross sales price. If the Conversion does not take place and the building remains as an affordable rental, the base ground rent will increase as of the date of the lease modification according to the aforementioned increase and escalation schedule.

Roosevelt Island was selected by the City of New York for the future site of the Cornell/Technion Applied Sciences Graduate School (Cornell). The project, which is projected to be built in three phases over a twenty year period, will be built primarily on property that is currently controlled by the City. We expect the project to have an indeterminate level of significant impacts on Island infrastructure, including but not limited to substantial construction related to the project and an increase in the daily population by at least 5,000 new residents. RIOC and Cornell are currently in discussions related to the short-term and long-term impacts the school will have on the Island's infrastructure, including cost sharing of selected capital projects. In addition to the costs related to the Cornell Project, RIOC may incur substantial costs (and significant environmental risks) from New York City's concurrent closure of a large steam plant located on the island, which formerly served the Goldwater Hospital Site (as well as Coler Hospital and several RIOC-owned facilities) and which the City now proposes to abandon in place. RIOC may be able to shift some or all of these costs to a future developer of the site and has issued a Request For Expressions of Interest ("RFEI") to developers for the steam plant site.

As noted above, RIOC issued a RFEI to attract proposals for the adaptive reuse or redevelopment of the approximately 56,000-square-foot site of the steam plant and adjacent land located on the Island. The steam plant is on Tramway Plaza, adjacent to the east side of the Roosevelt Island Tram Terminal and the north side of the Ed Koch Queensborough Bridge. The purpose of the RFEI is to learn the types of reuse and redevelopment plans that are both economically feasible and beneficial to the Roosevelt Island community and to assess the interest of qualified developers. After a review of the proposals, RIOC may request detailed development proposals from qualified developers in order to select a developer to enter into a long-term lease with RIOC for the design, development, and operation of the proposed site.

The closure of the steam plant will also require heating upgrades to Sports Park, which relied on the plant. The costs to upgrade the Sports Park heating system may be substantial; RIOC has recently engaged an engineering firm to conduct an analysis of the heating and ventilation systems and other capital assets, including but not limited to cursory overviews of the facility's lighting, electrical, plumbing, and roofing systems. In addition to determining the financial impact related to the closure of the steam plant, the study will identify the long-term viability of each noted asset and include a cost analysis that can be utilized to maintain these assets in a state of good repair.

The expected increase in traffic due to construction of Cornell has also precipitated the Corporation's release of a Request For Proposals ("RFP") for the Roosevelt Island Bridge Helix Ramp, which was rehabilitated in 1987 and would not have been addressed for some years in RIOC's capital plan. The purpose of the RFP is to solicit the services of a qualified engineering firm to perform structural evaluation, corrective engineering, and design services. A firm has been identified and approved by the RIOC Board — a contract for services is being drafted.

The Corporation has engaged a consultant to provide engineering design and marine permitting services for the completion of the Southpoint Park ("SPP") shorelines. Failures due to deterioration exist along both shores, and the west shore seawall consists of a succession of different masonry construction types, ranging from cut granite to large concrete blocks interspersed with eroded gaps. The eastern seawall, while in generally better condition, does have some localized failures including but not limited to damage to some 100 linear feet that was breached during Hurricane Irene; the portion damaged by the storm event has been approved by FEMA as a project for disaster recovery funding. Public access to the shorelines is not practical until structural integrity is restored. Moreover, loss of park area is beginning to occur as erosion penetrates beyond the wall breaches.

As noted above, Roosevelt Island was affected by Hurricane Irene. Before and during the storm, RIOC staff took measures to mitigate potential damage and to protect lives and property. Similarly, staff and contractor labor was used immediately following the storm to clear the roads and open spaces of debris and downed trees. Under Federal guidelines, these efforts were identified as eligible for reimbursement by FEMA. The following projects to rehabilitate portions of the Island impacted by Hurricane Irene were identified to FEMA and completed: (1) repairs were made to fencing damaged by falling trees; (2) repairs were made to damaged stone benches and walkways; (3) RIOC replaced safety mulch washed away from playgrounds; (4) streetlights adorning the open space at Lighthouse Park were damaged. Currently, plans for mitigation and repair at the South Point seawall are being designed by an engineering firm, and repairs are being made to several hundred linear feet of the West Side Sidewalk. These ongoing projects have similarly been identified to FEMA and are approved for reimbursement upon completion. The filing deadline for the continuing projects has been extended to December 21, 2015. As work is completed, the eligible costs are submitted to FEMA/OEM for review and approval. To date, RIOC has realized $103,142 in construction and labor costs and is projected to incur an additional $1,405,052 — for a projected total of $1,508,194. The receipt of the Federal share (75% of costs incurred in a FEMA approved scope of work) is dependent upon RIOC's outlay of cash for identified projects. As the completed projects are reviewed and approved by FEMA/OEM, the Corporation will receive the Federal share of the eligible costs as a reimbursement. Based on the projected total expenditures of $1,508,194, RIOC will receive reimbursements totaling approximately $1,131,145.

Similarly, the Island experienced damages caused by Hurricane Sandy during October 2012. RIOC has preliminarily identified projects to FEMA, including but not limited to, repairs of the Overlook Pier on the West Promenade, and foot bridges in Lighthouse Park. The projects are under review by FEMA and OEM for eligibility under Federal guidelines. RIOC's preliminary estimates to undertake repairs and mitigate future damage total approximately $734,000. No filing deadline will be established until the projects are deemed eligible.

RIOC's fifteen-year capital improvement plan provides a framework for the Corporation to renew existing aged infrastructure, and maintain the quality of life for the Island's residents, workers, and visitors. The Corporation achieves this by making capital improvements and strategically acquiring capital assets that support essential services such as transit, sanitation, and public safety. Significant projects in the first five years include the installation of LED lighting in the Motorgate Garage and repairs to its helix ramp, renovations of the Blackwell House interior, and modernization of the west drive. Feature projects and acquisitions slated for the fifteen-year period include: rehabilitation of the Island's seawall, representing $21.6 million in estimated expenditures; replacement of the railings at a cost of $3 million; $3.6 million toward maintaining a state of good repair on the Island's newly renovated aerial tramway; and $5.5 million toward the purchase of hybrid-electric buses, supplementing the Corporation's ability to continue providing transportation services as its current fleet ages.

## REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of RIOC's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, The Roosevelt Island Operating Corporation, 591 Main Street, Roosevelt Island, New York 10044.

**THE ROOSEVELT ISLAND OPERATING CORPORATION**
**(A Component Unit of the State of New York)**
**Statements of Net Position**
**March 31, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 692,141 | $ 417,734 |
| Short-term investments | 40,047,969 | 41,792,429 |
| Receivables | 1,086,151 | 983,142 |
| Prepaid expenses | 1,437,302 | 1,199,409 |
| Total current assets | 43,263,563 | 44,392,714 |
| Noncurrent investments | 2,050,455 | 2,046,345 |
| Capital assets, net of accumulated depreciation | 68,724,541 | 67,090,562 |
| Total assets | $ 114,038,559 | $ 113,529,621 |

| | 2013 | 2012 |
|---|---|---|
| **Liabilities and Net Position** | | |
| Current liabilities - accounts payable and accrued expenses | $ 809,459 | $ 457,249 |
| Compensated absences | 556,151 | 413,532 |
| Unearned revenue | 29,910,944 | 30,437,919 |
| Postemployment benefits other than pension | 2,382,670 | 2,046,344 |
| Other liabilities | 103,746 | 103,872 |
| Total liabilities | 33,762,970 | 33,458,916 |
| Net Position: | | |
| Investment in capital assets | 68,724,541 | 67,090,562 |
| Restricted for capital projects | 10,450,427 | 11,113,352 |
| Unrestricted net assets | 1,100,621 | 1,866,791 |
| Total net position | 80,275,589 | 80,070,705 |
| Total liabilities and net position | $ 114,038,559 | $ 113,529,621 |

See accompanying notes to financial statements.

**THE ROOSEVELT ISLAND OPERATING CORPORATION**
**(A Component Unit of the State of New York)**
**Statements of Revenues, Expenses and Changes in Net Position**
**Years ended March 31, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| Operating revenues: | | |
| Residential fees | $ 1,111,441 | $ 878,320 |
| Ground rent | 9,356,679 | 9,174,109 |
| Commercial rent | 1,421,038 | 1,296,141 |
| Tramway revenue | 4,640,843 | 4,297,891 |
| Public safety reimbursement | 1,673,097 | 1,613,297 |
| Transport/parking revenue | 2,521,892 | 2,485,613 |
| Interest income | 185,403 | 263,633 |
| Other revenues | 959,317 | 837,899 |
| Total operating revenues | 21,869,710 | 20,846,903 |
| Operating expenses: | | |
| Personnel services | 10,008,395 | 9,795,206 |
| Insurance | 1,137,448 | 1,061,546 |
| Professional services and legal services | 670,825 | 699,139 |
| Management fees | 4,074,439 | 4,072,518 |
| Telecommunications | 115,623 | 115,029 |
| Repairs and maintenance | 281,689 | 382,153 |
| Vehicles maintenance | 350,663 | 318,719 |
| Equipment purchases/lease | 73,481 | 112,977 |
| Supplies/services | 1,051,650 | 1,039,350 |
| Other expenses | 476,100 | 534,367 |
| Total operating expenses excluding depreciation | 18,240,313 | 18,131,004 |
| Operating income before depreciation | 3,629,397 | 2,715,899 |
| Depreciation expenses | 3,424,513 | 3,436,043 |
| Change in net position | 204,884 | (720,144) |
| Net position, beginning of year | 80,070,705 | 80,761,736 |
| Capital contributions for stabilization of Renwick Ruins | - | 29,113 |
| Net position, end of year | $ 80,275,589 | $ 80,070,705 |

See accompanying notes to financial statements.

**The Roosevelt Island Operating Corporation**
**(A Component Unit of the State of New York)**
**Statements of Cash Flows**
**Years ended March 31, 2013 and 2012**

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from tenants and customers | $ 21,611,911 | $ 20,712,144 |
| Payments related to employees | (9,822,014) | (9,553,102) |
| Payments to vendors | (8,197,349) | (9,255,816) |
| Net cash provided by operating activities | 3,592,548 | 1,903,226 |
| **Cash flow from investing activities** | | |
| Purchase of capital assets | (5,058,492) | (4,130,906) |
| Purchases of noncurrent investments | (4,110) | (766,521) |
| Purchase of short-term investments | (3,755,806) | (25,672,950) |
| Sale of short-term investments | 5,500,267 | 28,188,338 |
| Net cash used by investing activities | (3,318,141) | (2,382,039) |
| **Cash flow from financing activities** | | |
| Capital contributions for Renwick Ruins Project | - | 29,113 |
| Net cash provided by financing activities | - | 29,113 |
| Net increase in cash | 274,407 | (449,700) |
| Cash at beginning of year | 417,734 | 867,434 |
| Cash at end of year | $ 692,141 | $ 417,734 |
| **Reconciliation of operating income to net cash provided by operating activities** | | |
| Operating income (loss) | $ 204,884 | $ (720,144) |
| Adjustments to reconcile operating income (loss) to net cash provided by all activities: | | |
| Depreciation and amortization | 3,424,513 | 3,436,044 |
| Provision for bad debt | | (5,650) |
| Changes in: | | |
| Receivables | (103,010) | 121,469 |
| Prepaid expenses | (237,893) | (711,019) |
| Accounts payable and accrued expenses | 352,210 | (77,034) |
| Compensated absences | (526,975) | (101,198) |
| Unearned revenue | 142,620 | (376,510) |
| Postemployment benefits other than pension | 336,325 | 337,865 |
| Other liabilities | (126) | (597) |
| Net cash provided by operating activities | $ 3,592,548 | $ 1,903,226 |

See accompanying notes to financial statements.

## 1. Organization

In 1969, the City of New York entered into a lease with the New York State Urban Development Corporation (UDC) for the development of Roosevelt Island. In May 1981, pursuant to a memorandum of understanding between UDC and the New York State Division of Housing and Community Renewal (DHCR), responsibility for Roosevelt Island was assigned to DHCR. DHCR then assigned all of its rights and responsibilities to Safe Affordable Housing for Everyone, Inc. (SAHE), a corporation under the direct control of the New York State Commissioner of Housing.

Effective April 1, 1981, SAHE, a Community Development Corporation (formed under Article (6) of the Private Housing Finance Law), became responsible for the day-to-day operation of the services and facilities of Roosevelt Island.

On September 4, 1984, Roosevelt Island Operating Corporation (RIOC) was organized pursuant to Chapter 899 of the New York Unconsolidated Law as a public benefit corporation. The responsibility for the operation, security and maintenance of Roosevelt Island was transferred from SAHE to RIOC on April 1, 1985.

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Governmental Accounting Standards Board codification 2100, The Financial Reporting Entity, have been considered and there are no agencies or entities which should be, but are not, combined with the financial statements of RIOC. However, RIOC is considered a component unit of the State of New York.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Presentation

RIOC was created by the New York State Legislature in 1984 as a public benefit corporation charged with maintaining, operating, and developing Roosevelt Island. RIOC follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities of the Corporation. These statements are presented in a manner similar to a private business. While detailed sub-information is not presented, separate accounts are maintained for each fund to control and manage transactions for specific purposes and to demonstrate that RIOC is properly performing its contractual obligations.

## 2. Summary of Significant Accounting Policies (continued)

(a) Basis of Presentation (continued)

The financial statements of RIOC are prepared in accordance with generally accepted accounting principles (GAAP). RIOC's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and Accounting Principles Board (APB) opinions issued after November 30, 1989, unless they conflict with GASB pronouncements.

New Accounting Pronouncement:

For the year ended March 31, 2013, RIOC adopted the provisions of GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement amends the net asset reporting requirements in Statement No. 34 – "Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

(b) Budgetary Information

During the year ended March 31, 2013, RIOC did not request appropriations for the State of New York and, as such, a budget was not required to be adopted by law. Accordingly, budgetary information was not included in the notes to financial statements. However, the Board did approve an operating budget for management's internal use, and is included under supplementary information.

(c) Cash and Cash Equivalents

The following is a summary of cash and cash equivalents as of March 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Cash - deposits | $ 692,141 | $ 417,734 |
| Short-term investments: | | |
| Certificates of deposit (CDARS) | 21,135,884 | 20,990,528 |
| Money market accounts | 18,912,085 | 20,801,901 |
| | 40,047,969 | 41,792,429 |
| Total cash and cash equivalents | $ 40,740,110 | $ 42,210,163 |

## 2. Summary of Significant Accounting Policies (continued)

(c) Cash and Cash Equivalents (continued)

RIOC defines cash and cash equivalents as short-term, highly liquid investments with purchased maturities of three months or less.

The money market accounts are secured by collateral securities held in escrow by JP Morgan Chase Bank, NA and managed by the National Collateral Management Group with market values totaling $23,284,101 and $23,616,692 as of March 31, 2013 and March 31, 2012, respectively.

Investments managed internally consist of certificates of deposit, “CDARS”, a FDIC insured program administered by Amalgamated Bank, with purchased maturities of twelve months or less, and interest bearing cash deposit accounts. RIOC is limited under its investment guidelines primarily to the investment of funds in obligations of the United States of America (United States Government Securities), the State of New York, high grade Corporate Securities or certificates of deposit. All cash and funds invested in certificates in any fiduciary bank or trust company must be secured at all times by United States Government Securities or obligations of the State of New York, with a market value, combined with any FDIC coverage, at least equal to the amount of such deposits. Monies held by the Trustees are only secured by obligations guaranteed by the United States of America.

(d) Noncurrent Investments

This represents funds set aside to satisfy the obligation of the postemployment benefits other than pension under GASB Statement No. 45 and are invested in collateralized money market and CDARS.

(e) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported on the statement of assets in the accompanying financial statements. Capital assets are defined by RIOC as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets’ lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment of RIOC are depreciated using the straight-line method over the following estimated useful lives:

## 2. Summary of Significant Accounting Policies (continued)

e) Capital Assets (continued)

| | |
|---|---|
| Seawall (improvement of 1995) | 73 |
| Buildings | 40 |
| Building improvements | 15 |
| Infrastructure | 50 |
| Vehicles | 10 |
| Office equipment | 5 |
| Computer equipment | 5 |
| Leasehold improvements | 15 |

(f) Unearned Revenue

Unearned revenue reported in the statement of net position represents amounts collected in advance for lease-related payments pertaining to subsequent fiscal years. These amounts will be recognized as income on an annual basis over a period of the remaining fifty-six years on the ground lease for the City of New York expiring in 2068 under the accrual basis of accounting.

Breakdown is as follows:

| Buildings | Balance at April 01, 2012 | Additions | Amortization | Balance at March 31, 2013 |
|---|---|---|---|---|
| Octagon | $ 2,687,361 | $ - | $ (47,354) | $ 2,640,007 |
| Southtown Bldg #1 | 1,806,666 | - | (31,836) | 1,774,830 |
| Southtown Bldg #2 | 1,723,950 | - | (30,378) | 1,693,572 |
| Southtown Bldg #3 | 3,684,234 | - | (64,920) | 3,619,314 |
| Southtown Bldg #4 | 4,803,418 | - | (84,642) | 4,718,776 |
| Southtown Bldg #5 | 6,133,911 | - | (108,087) | 6,025,824 |
| Southtown Bldg #6 | 9,441,305 | - | (166,367) | 9,274,938 |
| Sportspark Field | 157,074 | 163,683 | (157,074) | 163,683 |
| Total | $ 30,437,919 | $ 163,683 | $ (690,658) | $ 29,910,944 |

(g) Compensated Absences

It is RIOC's policy to accrue for unused compensated absences for all full time employees. Accrued compensated time as of March 31, 2013 and 2012 were $556,151 and $413,532, respectively.

## 2. Summary of Significant Accounting Policies (continued)

(h) Public Purpose Grants

Included in "Other Expenses" are expenditures for public purpose grants totaling $275,000 per year for the years ended 2013 and 2012. The Roosevelt Island Youth Center was granted $175,000 each year to help fund operating expenses. The remaining grants of $100,000 are awarded to various Island-based not-for-profits that must apply each year and require Board approval.

(i) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

## 3. Capital Assets

Capital assets for the year ended March 31, 2013 are summarized as follows:

| Buildings | Balance at April 01, 2012 | Increase | Decrease | Balance at March 31, 2013 |
|---|---|---|---|---|
| Capital assets: | | | | |
| Seawall | $ 3,719,049 | $ 6,000 | $ - | $ 3,725,049 |
| Building and building improvements | 40,326,092 | 1,680,705 | - | 42,006,797 |
| Landmarks | 13,300,334 | 748,839 | - | 14,049,173 |
| Vehicles | 4,315,621 | 79,641 | - | 4,395,262 |
| Equipment | 3,276,243 | 98,923 | - | 3,375,166 |
| Infrastructure | 49,384,946 | 2,405,262 | - | 51,790,208 |
| Leasehold improvements | - | 39,122 | - | 39,122 |
| Total capital assets | 114,322,285 | 5,058,492 | - | 119,380,777 |
| Less accumulated depreciation: | | | | |
| Seawall | (872,159) | (51,001) | - | (923,160) |
| Building and building improvements | (27,874,765) | (1,218,402) | - | (29,093,167) |
| Landmarks | (6,949,173) | (290,713) | - | (7,239,886) |
| Vehicles | (1,962,257) | (435,491) | - | (2,397,748) |
| Equipment | (2,627,685) | (277,823) | - | (2,905,508) |
| Infrastructure | (6,945,684) | (1,151,083) | - | (8,096,767) |
| Total accumulated depreciation | (47,231,723) | (3,424,513) | - | (50,656,236) |
| Net capital assets | $ 67,090,562 | $ 1,633,979 | $ - | $ 68,724,541 |

## 3. Capital Assets (continued)

Capital assets for the year ended March 31, 2012 are summarized as follows:

| | Balance at April 1, 2011 | Increase | Decrease | Balance at March 31, 2012 |
|---|---|---|---|---|
| Capital assets: | | | | |
| Seawall | $ 3,719,049 | $ - | $ - | $ 3,719,049 |
| Building and building improvements | 39,924,943 | 401,149 | - | 40,326,092 |
| Landmarks | 12,989,185 | 311,149 | - | 13,300,334 |
| Vehicles | 4,277,552 | 38,069 | - | 4,315,621 |
| Equipment | 3,104,128 | 172,115 | - | 3,276,243 |
| Infrastructure | 46,176,522 | 3,208,424 | - | 49,384,946 |
| Total capital assets | 110,191,379 | 4,130,906 | - | 114,322,285 |
| Less accumulated depreciation: | | | | |
| Seawall | (821,213) | (50,946) | - | (872,159) |
| Building and building improvements | (26,703,515) | (1,171,250) | - | (27,874,765) |
| Landmarks | (6,664,821) | (284,352) | - | (6,949,173) |
| Vehicles | (1,533,747) | (428,510) | - | (1,962,257) |
| Equipment | (2,226,140) | (401,545) | - | (2,627,685) |
| Infrastructure | (5,846,244) | (1,099,440) | - | (6,945,684) |
| Total accumulated depreciation | (43,795,680) | (3,436,043) | - | (47,231,723) |
| Net capital assets | $ 66,395,699 | $ 694,863 | $ - | $ 67,090,562 |

## 4. Operating Revenues, Basic Rent and Housing Company Reimbursement

Operating revenues in the accompanying statement of revenues, expenses and fund net position consist of income derived from the following sources:

(a) Residential Fees

The net present value (NPV) fee for Southtown buildings # 4, 5 and 6 were collected in advance and recognized over the term of the lease – see above section 2 (f) Unearned Revenue. Tax equivalent payments (TEP) are collected and recognized from Southtown buildings # 5 and 6 over the term of the lease. Condo sales fees are collected and recognized upon closing of a sale. TEP and NPV are fixed and the Condo fees vary according to sales.

## 4. Operating Revenues, Basic Rent and Housing Company Reimbursement (continued)

(b) Ground Rent

Ground rents are derived from ground subleases between RIOC and various developers of housing on Roosevelt Island. Most of the ground subleases expire in 2068, which coincides with the expiration of the master lease between RIOC and New York City, the owner of Roosevelt Island. Ground rents account for nearly 45% of annual revenues. The two main sources of ground rents are Manhattan Park and Roosevelt Landings (formerly Eastwood). The other streams of ground rents are from Southtown Buildings #1,2,3,4,5 and 6; Island House; Rivercross; and, Octagon.

Manhattan Park - Under the terms of the ground sublease between RIOC and Roosevelt Island Associates dated August 4, 1986 and expiring in 2068, annual rent, which commenced on the Rent Commencement Date of January 1, 1991, consists of a base ground rent of $100,000 and additional fixed ground rent of $1,900,000, increasing $100,000 annually through December 31, 2011. As of January 1, 2012 and continuing through December 31, 2026, annual ground rent consists of the base ground rent of $100,000 and additional fixed ground rent of $4,000,000. Beyond 2026 until expiration in 2068, the ground rent is based upon the appraised value of the property times an applicable percentage, which is the market rate of return. Ground rents earned under the terms of the ground sublease were $4,100,000 and $4,025,000 for the years ended March 31, 2013 and 2012, respectively.

In addition to the ground rent mentioned above, RIOC receives a percentage payment, which is based on a percentage of Manhattan Park's annual rent rolls. Percentage payments received were $2,040,649 for the year ended March 31, 2013, and the same amount, $2,040,649, for the year ended March 31, 2012.

Roosevelt Landings (formerly Eastwood) - The ground sublease between RIOC and North Town Phase 1 Houses, Inc., dated March 15, 1972, was amended and restated with the base ground rent increasing to $1 million per year effective October 1, 2006, plus a percentage interest in subsequent increasing rent rolls. Ground rents earned totaled $1,354,838 and $1,289,330 for the years ended March 31, 2013 and 2012, respectively.

(c) Commercial Rent

On August 1, 2011, RIOC entered into a Master Sublease Agreement with Hudson Related Retail LLC to redevelop, improve, market, lease and professionally operate the Commercial Retail Spaces controlled by RIOC. Hudson Related Retail LLC will pay RIOC an annual guaranteed rent of $900,000 plus participation in the profits of Hudson Related Retail LLC. According to its certified financial statements as of December 31, 2012, Hudson Related Retail LLC invested $636,436 and incurred a loss of $320,279. According to the agreement, RIOC will share future profits 50/50 once HRR is paid back its investment.

## 4. Operating Revenues, Basic Rent and Housing Company Reimbursement (continued)

(d) Tramway Revenue

During February 2004, RIOC entered into an agreement with The New York Transit Authority (NYCTA) for revenue collection from the Tramway. In the agreement, RIOC receives from the NYCTA a fare of $2.00 for all swipes of full-fare Metro Cards, including transfers, in turnstiles located in RIOC's tram stations. The funds are transmitted to RIOC via electronic funds transfer and the NYCTA supplies appropriate reports for the reconciliation of the revenue and rider-ship. There is a franchise fee expense associated with this agreement that is ½ of 1 percent of gross sales.

(e) Public Safety Reimbursement

The intent of the initial agreements with the four original Mitchell-Lama housing projects (the "WIRE Projects") was for the Corporation to recoup approximately 50% of the cost of maintaining a public safety department on the Island. Accordingly, no less than 50% of such costs have been reimbursed by the WIRE Projects and are included in public safety reimbursement on the accompanying statements of revenues, expenses, and changes in fund net position. Additionally, Manhattan Park, Southtown and the Octagon projects are responsible for their respective share of the cost of RIOC's public safety department. Public safety reimbursements were $1,652,712 and $1,613,297 for fiscal year ending March 31, 2013 and 2012, respectively.

(f) Transportation and Parking Fees

The Motorgate Garage, the Roosevelt Island parking facility, is managed by an agent, Central Parking System ("Central"). This agreement is cancelable by RIOC on 30-day notice and by Central on 180-day notice. Central collects the parking fees and pays the operating costs in connection with the management of the garage. The excess of parking revenues over operating costs is returned to RIOC. RIOC shares the Motorgate revenue with Roosevelt Island Associates, operator of Manhattan Park, with RIOC receiving 61% of the net income. RIOC's share of Motorgate revenues totaled $1,919,258 and $1,889,277 for the years ended March 31, 2013 and 2012, respectively.

Transportation revenues from the provision of bus services totaled $451,054 and $449,827 for the years ended March 31, 2013 and 2012, respectively. The cost of running the bus service totaled $1,631,502 and $1,320,105 for the same respective periods. Additionally, revenues from street parking meters for these periods totaled $151,580 and $146,509.

(g) Interest and Other Revenues

Interest income is derived from deposits that are either FDIC insured or collateralized by government securities according to the investment guidelines of the State of New York. Other revenues comprised of fees for usage of the sports fields and facilities.

## 4. Operating Revenues, Basic Rent and Housing Company Reimbursement (continued)

(h) De-designation Fee Income

The development agreement for Southtown buildings ("Buildings") five (5) through nine (9) between Hudson Related Joint Venture ("Developer") and RIOC included a contingent de-designation (cancellation of project or portion of) fee of $2,252,198. As of the date of this report, Buildings five (5) and six (6) were completed within the agreed upon timeframe, and resulted in the pro-rata reduction of the de-designation fee to $1,420,800. The agreement is collateralized by a Guaranty Letter of Credit issued by Deutsche Bank Trust Company, NA in the amount of $1,420,800 maturing on August 15, 2013, to be renewed annually. Of the remaining Buildings, the Building 7 Lease Closing need to occur before July 31, 2013; the Building 8 Lease Closing shall occur no later than 30 months after the Building 7 Lease Closing; and the Building 9 Lease Closing shall occur no later than 30 months after the Building 8 Lease Closing. In the event that the Developer fails to close a Building lease in accordance with the foregoing schedule, except if due to RIOC, RIOC may draw the entire balance of the Guaranty Letter of Credit and apply same at its sole discretion, and in addition thereto, at its sole option, de-designate Developer for each such Building and for the remainder of the Building.

(i) Future Minimum Payments Due

Future minimum payments due to RIOC under current leases all with the housing companies and leases for commercial space are as follows:

| Years ending March 31 | Housing Companies | Commercial Leases |
|---|---|---|
| 2014 | $ 11,601,033 | $ 1,465,632 |
| 2015 | 12,337,866 | 1,695,366 |
| 2016 | 13,529,227 | 1,725,806 |
| 2017 | 14,653,964 | 1,781,969 |
| 2018 | 15,559,829 | 1,813,874 |
| Total | $ 67,681,919 | $ 8,482,647 |

## 5. Management Agreements

The Roosevelt Island Tramway System is operated by Leitner-Poma of America, Inc., a subsidiary of Pomagalski S.A, the designer and builder of the modernized Tramway system, which went into operation on November 30, 2010. RIOC entered into a 5-year fixed fee operating agreement at an annual cost of $3,397,200.

## 5. Management Agreements (Continued)

RIOC also has a parking management agreement with Central Parking System ("Central") for the management of Motorgate Garage. This agreement is cancelable by RIOC on 30-day notice and by Central on 180-day notice. RIOC pays an annual management fee of $40,000 and certain operating costs in connection with the management of the garage.

## 6. Income Taxes

RIOC is a public benefit corporation of the State of New York and as such is exempt from income tax under Section 115 of the Internal Revenue Code. Accordingly, no income taxes have been provided for in the financial statements.

## 7. Retirement Plans

Retirement plans in which RIOC contributes are detailed as follows:

(a) Non-Union Employees:

Plan Description

RIOC's non-union employees participate in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. ERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as sole trustee and administrative head of ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of ERS and for the custody and control of their funds. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Albany, New York 12244.

Funding Policy

ERS is contributory (3%) except for employees who joined the System before July 27, 1976. Employees who joined the System after July 27, 1976, but prior to January 1, 2011, and have been members of the System for at least ten years, or have at least ten years of credited service are not required to contribute 3% of their salaries. Employee hired after January 1, 2011 shall contribute 3% of salary for the duration of employment. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund. RIOC is required to contribute at an actuarially determined rate.

## 7. Retirement Plans (continued)

Funding Policy (continued)

The required contributions for the current year and two preceding years were approximately:

| | | |
|---|---|---|
| March 31, 2011 | $ | 389,011 |
| March 31, 2012 | $ | 639,065 |
| March 31, 2013 | $ | 583,380 |

RIOC has made the required contributions for each year.

(b) Union Employees

Union employees participate in separate defined contribution plans, which are administered by each union. RIOC contributed $188,730 and $197,630 for the years ended March 31, 2013 and 2012, respectively, to union employees' defined contribution plans.

## 8. Risk Management

RIOC purchases commercial insurance policies to adequately protect against potential loss stemming from general liability, vehicle liability, property damage, and public officials and employee liability. Coverages for the forthcoming fiscal year ended March 31, 2014 were appropriately increased to provide adequate protection for RIOC as follows:

| **Coverages** | **2013-2014 Coverage Amount** |
|---|---|
| General liability - RIOC and Tram | $125 million limit |
| Property | $75 million loss limit |
| Boiler and machinery | $100 million limit |
| Automobile | $1 million limit |
| Public officials liability | $5 million limit |

## 9. Commitments and Contingencies

Commitments and contingencies at March 31, 2013 and 2012 are detailed as follows:

(a) Leases
RIOC has agreements with four (4) housing companies operating on the Island to sublease commercial space occupied by the housing companies. Rent expense for the years ended March 31, 2013 and 2012 approximated $86,000 per year.

(b) Litigation

RIOC is a defendant in various lawsuits. In the opinion of RIOC's legal counsel, these suits are without substantial merit and should not result in judgments which in the aggregate would have a material adverse effect on RIOC's financial statements.

(c) Prior Years' New York State Appropriations

The Office of the State Comptroller of the State of New York, requested confirmation of the following potential liabilities:

| | | |
|---|---|---|
| Appropriation # 0060083 | fiscal year 89/90 | $ 1,299,964 |
| Appropriation # 0066230 | fiscal year 90/91 | 2,463,531 |
| Appropriation # 0071968 | fiscal year 91/92 | 2,702,481 |
| Appropriation # 0078460 | fiscal year 92/93 | 1,346,400 |
| Appropriation # 0084266 | fiscal year 93/94 | 1,648,254 |
| | | $ 9,460,630 |

The appropriations were made to RIOC for "services and expenses related to the development and operation of Roosevelt Island". Furthermore, the appropriations required RIOC "for repayment by such corporation to the State of New York of an amount equal to any receipts collected by the corporation during the fiscal year beginning April 1, 1989 in excess of the amount that the director of the budget estimates that the corporation will receive during the fiscal year". RIOC's records indicate that it satisfied the repayment requirements of the appropriations; and it doesn't owe any monies to the State of New York for appropriations made during the fiscal years 89/90 to 93/94.

(d) Revenue Allocation Agreement – between New York State Urban Development Corporation ("UDC"), now known as the Empire State Development Corporation (ESD") and Roosevelt Island Operating Corporation ("RIOC")

On August 3rd, 1988 ESD and RIOC entered into an agreement in the sharing of all revenues derived by RIOC in order for ESD to recover it's investment in Roosevelt Island. The total

## 9. Commitments and Contingencies (continued)

(d) Revenue Allocation Agreement – between New York State Urban Development Corporation ("UDC"), now known as the Empire State Development Corporation (ESD") and Roosevelt Island Operating Corporation ("RIOC") - continued

amount invested in developing the Roosevelt Island infrastructure and funding of ESD's operating deficits prior to the assignment of operations to RIOC amounted to $170,356,976 along with a stated interest rate of 5.74%. The agreement calls for revenues to be allocated in the following manner; (1) RIOC Operating Expenditures, (2) All Other State Subsidies, (3) State (RIOC) Capital Investments and (4) ESD Debt. To date, no revenues have been allocated for the ESD debt other than "Tax Equivalency Payments" ("TEP") payments for the islands original affordable "Mitchell-Lama" buildings. ESD acknowledges that there are significant projected future capital investments to be made by RIOC and that it is highly unlikely that there would be sufficient excess revenues to share with ESD.

(e) Claims

The contractor for the modernization of the Roosevelt Island Aerial Tramway has submitted claims to RIOC for additional compensation in the amount of $18,794,956 (on top of the fixed fee contracted price of $16,693,894) on account of various items of alleged extra work and alleged interferences to its work. RIOC believes that these claims are without merit.

In addition, the contractor also claims a Contract Sum balance of $1,995,230 under the Design/Build Agreement. The claimed Contract Sum balance is disputed by RIOC for reason of various incomplete items of Work and contractor's failure to return the Tramway to service within the Contract Time.

The Corporation's legal counsel is reviewing these claims and has not yet formed an opinion on these matters.

## 10. Postemployment Benefits Other Than Pensions

The Corporation implemented the accounting and disclosure requirements of GASB Statement No. 45 - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" effective for its fiscal year beginning April 1, 2007.

Plan Description - The Corporation provides continuation of medical coverage to administrative, non-represented employees (those categorized as M/C) that retire at age 55 or older with five (5) years of service with the Corporation or a combination of service with a previous NYS public employer and a minimum of one (1) year service with RIOC. The employee must meet the requirements for retiring as a member of the NYS Employees Retirement System, and the employee must be enrolled in NYSHIP. The Corporation contributes 90% for employees and 75% for an employee's spouse.

## 10. Postemployment Benefits Other Than Pensions (continued)

The Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's non-union employees may become eligible for these benefits if they reach the normal retirement age, of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees.

Total expenditures charged to operations for the years ended March 31, 2013 and 2012 amounted to $457,950 and $461,412, respectively. At March 31, 2013, the liability for retired employees included in non-current accrued fringe benefits amounted to $2,382,670.

The number of participants as of January 1, 2013 was as follows:

| | |
|---|---|
| Active employees | 33 |
| Retired employees | 10 |
| Spouses of retired employees | 1 |
| Total | 44 |

Funding Policy - The Corporation currently pays for post-retirement health care benefits on a pay-as-you-go basis. These financial statements assume that pay-as-you-go funding will continue. The fund set aside for this purpose is discussed in Note 2 (d).

Benefit Obligations and Normal Cost

| | 2013 | 2012 |
|---|---|---|
| Actuarial accrued liability (AAL): | | |
| Actuarial accrued liability | $ 4,879,082 | $ 4,641,422 |
| Less: Actuarial value of assets | - | - |
| Unfunded actuarial accrued liability (UAAL) | $ 4,879,082 | $ 4,641,422 |
| Normal cost | $ 261,151 | $ 274,538 |

Annual OPEB Cost and Net OPEB Obligation

| | 2013 | 2012 |
|---|---|---|
| Annual required contribution | $ 455,051 | $ 458,992 |
| Interest on net OPEB obligation | 81,854 | 68,339 |
| Adjustment to annual required contribution | (78,955) | (65,919) |
| Annual OPEB cost (expense) | 457,950 | 461,412 |
| Contribution made on a pay-as-you-go basis | (121,625) | (123,547) |
| Increase in net OPEB obligation | 336,325 | 337,865 |
| Net OPEB obligation at beginning of year | 2,046,344 | 1,708,479 |
| Net OPEB obligation at end of year | $ 2,382,669 | $ 2,046,344 |

## 10. Postemployment Benefits Other Than Pensions (continued)

Actuarial methods and assumptions:

| | |
|---|---|
| Valuation method | Projected Unit Credit Method |
| Amortization period | 30 years |
| Amortization method | Level percent of pay, open group |
| Interest rate | 4.0% |
| Inflation rate | 3.0% |
| Annual payroll growth rate | 3.5% |
| Retirement rates | Later of age 65 and first eligibilit |

Healthcare cost trend:

| Year | Medical Trend Rate |
|---|---|
| 2012 | 7.5% |
| 2013 | 7.0% |
| 2014 | 6.5% |
| 2015 | 6.0% |
| 2016 | 5.5% |
| 2017 and beyond | 5.0% |

## 11. Pollution Remediation Obligations

In accordance with the GASB Statement No. 49 - "Accounting for Pollution Remediation Obligations," management has concluded that no obligating event has occurred that would require recognition of a future pollution remediation obligation in the accompanying financial statements.

## 12. Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 61 – "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are also intertwined with the primary government that they are essentially the same as the primary government. The provisions of this statement are effective for periods beginning after June 15, 2012, which is the fiscal year beginning April 1, 2013 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

## 12. Accounting Standards Issued But Not Yet Implemented (continued)

GASB Statement No. 65 – "Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations. The provisions of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

GASB Statement No. 66 – "Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 – "Fund Balance Reporting and Governmental Fund Type Definitions", and No. 62 – "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This statement also amends Statement No. 10 – "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

GASB Statement No. 67 – "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25" replaces existing standards of financial reporting and notes disclosures for most pension plans that are administered through trusts or equivalent arrangements. The provisions of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning April 1, 2014 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

## 12. Accounting Standards Issued But Not Yet Implemented (continued)

GASB Statement No. 68 – "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The provisions of this statement are effective for periods beginning after June 15, 2014, which is the fiscal year beginning April 1, 2015 for RIOC. Management has not yet determined the effect that this statement will have on the future financial statements of RIOC.

**The Roosevelt Island Operating Corporation**
**(A Component Unit of the State of New York)**
**Schedule of Operations by Department**
**Year Ended March 31, 2013**

| | General Fund | | | | | | Public | Capital | Reserved | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Operations | Public Safety | Bus | Parking | Parks/Rec. | Tram | Purpose Fund | Fund | Fund | Total |
| Operating Revenues: | | | | | | | | | | |
| Residential fees | $ 369,739 | $ - | $ - | $ - | $ - | $ - | $ - | $ 540,116 | $ 201,586 | $ 1,111,441 |
| Ground rent | 9,356,679 | - | - | - | - | - | - | - | - | 9,356,679 |
| Commercial rent | 1,421,038 | - | - | - | - | - | - | - | - | 1,421,038 |
| Tramway revenue | - | - | - | - | - | 4,640,843 | - | - | - | 4,640,843 |
| Public safety reimbursement | - | 1,673,097 | - | - | - | - | - | - | - | 1,673,097 |
| Transport/parking revenue | - | - | 451,055 | 2,070,838 | - | - | - | - | - | 2,521,893 |
| Interest income | 7,107 | - | - | - | - | - | 6 | 1,452 | 176,837 | 185,402 |
| Other revenues | 313,918 | - | - | - | 645,399 | - | - | - | - | 959,317 |
| Total operating revenues | 11,468,481 | 1,673,097 | 451,055 | 2,070,838 | 645,399 | 4,640,843 | 6 | 541,568 | 378,423 | 21,869,710 |
| Operating Expenses: | | | | | | | | | | |
| Personnel Services : | | | | | | | | | | |
| Salaries | 3,057,350 | 2,035,023 | 947,221 | - | 483,221 | - | - | - | - | 6,522,815 |
| Temporary employees | 153,941 | - | - | - | 18,611 | - | - | - | - | 172,552 |
| Employee benefits | 1,986,191 | 678,180 | 320,646 | - | 185,391 | - | - | - | - | 3,170,408 |
| Compensated absences expenses | 142,620 | - | - | - | - | - | - | - | - | 142,620 |
| Total personnel services | 5,340,102 | 2,713,203 | 1,267,867 | - | 687,223 | - | - | - | - | 10,008,395 |
| Other Than Personnel Services (OTPS): | | | | | | | | | | |
| Insurance | 987,448 | - | - | - | - | 150,000 | - | - | - | 1,137,448 |
| Professional services | 364,345 | - | - | - | 59,319 | - | - | - | - | 423,664 |
| Management fees | - | - | - | 638,120 | - | 3,436,319 | - | - | - | 4,074,439 |
| Legal services | 247,161 | - | - | - | - | - | - | - | - | 247,161 |
| Telecommunications | 115,623 | - | - | - | - | - | - | - | - | 115,623 |
| Island Improvements/Capital Plan | 7,000 | | | | | | | | | 7,000 |
| Repairs and maintenance | 241,992 | 6,892 | 9,896 | (1,545) | 12,501 | 11,952 | - | - | - | 281,688 |
| Vehicles maintenance | 42,407 | 34,535 | 272,632 | - | 1,090 | - | - | - | - | 350,664 |
| Equipment purchases/lease | 62,514 | 773 | 6,985 | - | 1,856 | 1,354 | - | - | - | 73,482 |
| Supplies/services | 494,733 | 90,738 | 47,911 | 73,556 | 163,037 | 181,674 | - | - | - | 1,051,649 |
| Other expenses | 92,898 | 14,218 | 2,977 | - | 83,354 | 70 | 275,583 | - | - | 469,100 |
| Total Other Than Personnel Services (OTPS) | 2,656,121 | 147,156 | 340,401 | 710,131 | 321,157 | 3,781,369 | 275,583 | - | - | 8,231,918 |
| Total operating expenses excluding depreciation | 7,996,223 | 2,860,359 | 1,608,268 | 710,131 | 1,008,380 | 3,781,369 | 275,583 | - | - | 18,240,313 |
| Operating income (loss) before depreciation | 3,472,258 | (1,187,262) | (1,157,213) | 1,360,707 | (362,981) | 859,474 | (275,577) | 541,568 | 378,423 | 3,629,397 |
| Depreciation expense | - | - | - | - | - | - | - | 3,424,513 | - | 3,424,513 |
| Operating income (loss) | $ 3,472,258 | $ (1,187,262) | $ (1,157,213) | $ 1,360,707 | $ (362,981) | $ 859,474 | $ (275,577) | $ (2,882,945) | $ 378,423 | $ 204,884 |

**Roosevelt Island Operating Corporation**
**(A Component Unit of the State of New York)**
**Schedule of Operations by Department**
**Year Ended March 31, 2012**

| | General Fund | | | | | | Public | Capital | Reserved | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Operations | Public Safety | Transportation | Parking | Parks/Rec. | Tram | Purpose Fund | Fund | Fund | Total |
| Operating Revenues: | | | | | | | | | | |
| Residential fees | $ 369,739 | $ - | $ - | $ - | $ - | $ - | $ - | $ 306,995 | $ 201,586 | $ 878,320 |
| Ground rent | 9,174,109 | - | - | - | - | - | - | - | - | 9,174,109 |
| Commercial rent | 1,296,141 | - | - | - | - | - | - | - | - | 1,296,141 |
| Tramway revenue | - | - | - | - | - | 4,297,891 | - | - | - | 4,297,891 |
| Public safety reimbursement | - | 1,613,297 | - | - | - | - | - | - | - | 1,613,297 |
| Transport/parking revenue | - | - | 449,827 | 2,035,786 | - | - | - | - | - | 2,485,613 |
| Interest income | 12,976 | - | - | - | - | - | (5) | 3,373 | 247,289 | 263,633 |
| Other revenues | 167,420 | - | - | - | 670,479 | - | - | - | - | 837,899 |
| Total operating revenues | 11,020,385 | 1,613,297 | 449,827 | 2,035,786 | 670,479 | 4,297,891 | (5) | 310,368 | 448,875 | 20,846,903 |
| Operating Expenses | | | | | | | | | | |
| Personnel Services: | | | | | | | | | | |
| Salaries | 3,311,788 | 1,986,680 | 724,628 | - | 438,816 | - | - | - | - | 6,461,912 |
| Temporary employees | 132,143 | 5,520 | - | - | 27,690 | - | - | - | - | 165,353 |
| Employee benefits | 2,131,670 | 657,007 | 275,617 | - | 204,845 | - | - | - | - | 3,269,139 |
| Compensated absences expenses | (101,198) | - | - | - | - | - | - | - | - | (101,198) |
| Total personnel services | 5,474,403 | 2,649,207 | 1,000,245 | - | 671,351 | - | - | - | - | 9,795,206 |
| Other Than Personnel Services (OTPS) : | | | | | | | | | | |
| Insurance | 911,546 | - | - | - | - | 150,000 | - | - | - | 1,061,546 |
| Professional services | 550,671 | - | - | - | 40,839 | - | - | - | - | 591,510 |
| Management fees | - | - | - | 638,951 | - | 3,433,567 | - | - | - | 4,072,518 |
| Legal services | 107,629 | - | - | - | - | - | - | - | - | 107,629 |
| Telecommunications | 115,029 | - | - | - | - | - | - | - | - | 115,029 |
| Repairs and maintenance | 317,166 | 8,531 | 18,199 | 14,334 | 8,483 | 15,440 | - | - | - | 382,153 |
| Vehicles maintenance | 44,134 | 35,423 | 238,522 | - | 640 | - | - | - | - | 318,719 |
| Equipment purchases/lease | 93,129 | 8,269 | 6,407 | - | - | 5,172 | - | - | - | 112,977 |
| Supplies/services | 536,046 | 98,358 | 37,975 | 70,620 | 136,995 | 159,356 | - | - | - | 1,039,350 |
| Other expenses | 132,368 | 16,635 | 2,395 | - | 106,494 | 2,025 | 274,450 | - | - | 534,367 |
| Total Other Than Personnel Services (OTPS) | 2,807,718 | 167,216 | 303,498 | 723,905 | 293,451 | 3,765,560 | 274,450 | - | - | 8,335,798 |
| Total operating expenses excluding depreciation | 8,282,121 | 2,816,423 | 1,303,743 | 723,905 | 964,802 | 3,765,560 | 274,450 | - | - | 18,131,004 |
| Operating income (loss) before depreciation | 2,738,264 | (1,203,126) | (853,916) | 1,311,881 | (294,323) | 532,331 | (274,455) | 310,368 | 448,875 | 2,715,899 |
| Depreciation expense | - | - | - | - | - | - | - | 3,436,043 | - | 3,436,043 |
| Operating income (loss) | $ 2,738,264 | $ (1,203,126) | $ (853,916) | $ 1,311,881 | $ (294,323) | $ 532,331 | $ (274,455) | $(3,125,675) | $ 448,875 | $ (720,144) |

**The Roosevelt Island Operating Corporation**
**(A Component Unit of the State of New York)**
**Budget Variance Report**
**Year Ended March 31, 2013**

| | | (Unaudited) | Favorable (Unfavorable) | |
|---|---|---|---|---|
| | Actual | Budget | Variance | Percent |
| Operating revenues: | | | | |
| Residential fees | $ 1,111,441 | $ 1,239,509 | $ (128,068) | -10% |
| Ground rent | 9,356,679 | 9,453,000 | (96,321) | -1% |
| Commercial rent | 1,421,038 | 1,437,000 | (15,962) | -1% |
| Tramway revenue | 4,640,843 | 4,147,000 | 493,843 | 12% |
| Public safety reimbursement | 1,673,097 | 1,662,000 | 11,097 | 1% |
| Transport/parking revenue | 2,521,892 | 2,691,000 | (169,108) | -6% |
| Interest income | 185,403 | 291,000 | (105,597) | -36% |
| Other revenues | 959,317 | 703,000 | 256,317 | 36% |
| Total operating revenues | 21,869,710 | 21,623,509 | 246,201 | 1% |
| Operating expenses: | | | | |
| Personnel Services: | | | | |
| Salaries | 6,290,604 | 6,432,486 | 141,882 | 2% |
| Salaries - overtime | 232,211 | 175,000 | (57,211) | -33% |
| Temporary employees | 172,553 | 175,000 | 2,447 | 1% |
| Workers compensation & disability | 128,234 | 162,133 | 33,899 | 21% |
| ER payroll taxes | 582,080 | 584,603 | 2,523 | 0% |
| Health insurance | 1,111,071 | 1,275,238 | 164,167 | 13% |
| Dental/vision | 68,124 | 74,777 | 6,653 | 9% |
| Pension | 772,110 | 757,755 | (14,355) | -2% |
| Other employee benefits | 508,788 | 476,722 | (32,066) | -7% |
| Compensated absences expenses | 142,620 | - | (142,620) | 100% |
| Total Personnel Services | 10,008,395 | 10,113,714 | 105,319 | 1% |
| Other Than Personnel Services (OTPS) : | | | | |
| Insurance | 1,137,448 | 1,150,000 | 12,552 | 1% |
| Professional services | 406,600 | 320,900 | (85,700) | -27% |
| Marketing /advertisting | 17,063 | 17,400 | 337 | 2% |
| Management fees | 4,074,439 | 4,077,200 | 2,761 | 0% |
| Legal services | 247,161 | 200,000 | (47,161) | -24% |
| Telecommunications | 115,623 | 107,100 | (8,523) | -8% |
| Island Improvements/Capital Plan | 7,000 | - | (7,000) | 0% |
| Repairs and maintenance | 169,451 | 402,200 | 232,749 | 58% |
| Repairs and maintenance equipment | 14,019 | 25,200 | 11,181 | 44% |
| Other repairs and maintenance | 98,219 | 105,000 | 6,781 | 6% |
| Vehicles gas | 208,240 | 168,300 | (39,940) | -24% |
| Vehicles repair and maintenance | 76,406 | 83,600 | 7,194 | 9% |
| Vehicles parts | 66,017 | 37,200 | (28,817) | -77% |
| Equipment lease | 28,980 | 16,400 | (12,580) | -77% |
| Office equipment purchase | 12,067 | 19,800 | 7,733 | 39% |
| Equipment purchases | 23,324 | 53,600 | 30,276 | 56% |
| Other equipment purchases | 9,111 | 18,000 | 8,889 | 49% |
| Exterminator | 9,800 | 17,100 | 7,300 | 43% |
| Uniforms | 46,241 | 66,950 | 20,709 | 31% |
| Light, power, heat | 650,696 | 588,000 | (62,696) | -11% |
| Water and sewer | 45,797 | 8,600 | (37,197) | -433% |
| Office supplies | 14,819 | 17,100 | 2,281 | 13% |
| Parts and supplies | 232,665 | 210,700 | (21,965) | -10% |
| Service maintenance agreement | 51,632 | 70,500 | 18,868 | 27% |
| Employee travel and meal | 8,229 | 17,500 | 9,271 | 53% |
| Employee training | 27,783 | 56,400 | 28,617 | 51% |
| Shipping | 8,763 | 13,400 | 4,637 | 35% |
| Subscriptions /membership | 18,043 | 15,700 | (2,343) | -15% |
| Other expenses | 324,159 | 338,200 | 14,041 | 4% |
| Island Events - Community relations | 82,123 | 85,000 | 2,877 | 3% |
| Total Other Than Personnel Services | 8,231,918 | 8,307,050 | 75,132 | 1% |
| Total operating expenses excluding depreciation | 18,240,313 | 18,420,764 | 180,451 | 1% |
| Operating income (loss) before depreciation | 3,629,397 | 3,202,745 | 426,652 | 13% |
| Depreciation expenses | 3,424,513 | 3,577,000 | 152,487 | 4% |
| Operating income (loss) | $ 204,884 | $ (374,255) | $ 579,139 | 155% |

**The Roosevelt Island Operating Corporation (RIOC)**
**(A Component Unit of the State of New York)**
**Budget Variance Report**
**Year Ended March 31, 2012**

| | | (Unaudited) | Favorable (Unfavorable) | |
|---|---|---|---|---|
| | Actual | Budget | Variance | Percent |
| Operating revenues: | | | | |
| Residential fees | $ 878,320 | $ 966,775 | $ (88,455) | -9% |
| Ground rent | 9,174,109 | 9,199,000 | (24,891) | 0% |
| Commercial rent | 1,296,141 | 1,607,000 | (310,859) | -19% |
| Tramway revenue | 4,297,891 | 3,744,000 | 553,891 | 15% |
| Public safety reimbursement | 1,613,297 | 1,615,000 | (1,703) | 0% |
| Transport/parking revenue | 2,485,613 | 2,576,000 | (90,387) | -4% |
| Interest income | 263,633 | 509,000 | (245,367) | -48% |
| Other revenues | 837,899 | 617,000 | 220,899 | 36% |
| Total operating revenues | 20,846,903 | 20,833,775 | 13,128 | 0% |
| Operating expenses: | | | | |
| Personnel Services : | | | | |
| Salaries | 6,316,468 | 6,349,785 | 33,317 | 1% |
| Salaries-overtime | 145,444 | 175,000 | 29,556 | 17% |
| Temporary employees | 165,353 | 175,000 | 9,647 | 6% |
| Workers compensation & disability | 190,595 | 186,098 | (4,497) | -2% |
| ER payroll taxes | 573,367 | 579,699 | 6,332 | 1% |
| Health insurance | 1,083,897 | 1,190,395 | 106,498 | 9% |
| Dental/vision | 75,411 | 72,482 | (2,929) | -4% |
| Pension | 836,645 | 700,868 | (135,777) | -19% |
| Other employee benefits | 509,224 | 473,804 | (35,420) | -7% |
| Compensated absences expenses | (101,198) | - | 101,198 | 100% |
| Total Personnel Services | 9,795,206 | 9,903,131 | 107,925 | 1% |
| Other Than Personnel Services (OTPS) : | | | | |
| Insurance | 1,061,546 | 940,000 | (121,546) | -13% |
| Professional services | 583,375 | 404,200 | (179,175) | -44% |
| Marketing/advertisting | 8,135 | 18,600 | 10,465 | 56% |
| Management fees | 4,072,518 | 4,135,200 | 62,682 | 2% |
| Legal services | 107,629 | 375,000 | 267,371 | 71% |
| Telecommunications | 115,029 | 106,800 | (8,229) | -8% |
| Repairs and maintenance | 286,126 | 391,400 | 105,274 | 27% |
| Repairs and maintenance equipment | 18,288 | 21,600 | 3,312 | 15% |
| Other repairs and maintenance | 77,738 | 85,000 | 7,262 | 9% |
| Vehicles gas | 171,689 | 146,100 | (25,589) | -18% |
| Vehicles repairs and maintenance | 83,908 | 83,600 | (308) | 0% |
| Vehicles parts | 63,122 | 34,200 | (28,922) | -85% |
| Equipment lease | 18,485 | 20,600 | 2,115 | 10% |
| Office equipment purchase | 17,726 | 22,200 | 4,474 | 20% |
| Equipment purchases | 54,731 | 57,800 | 3,069 | 5% |
| Other equipment purchases | 22,036 | 26,000 | 3,964 | 15% |
| Exterminator | 10,780 | 15,600 | 4,820 | 31% |
| Uniforms | 53,375 | 69,870 | 16,495 | 24% |
| Light, power, and heat | 667,272 | 469,000 | (198,272) | -42% |
| Water and sewer | 9,067 | 20,000 | 10,933 | 55% |
| Office supplies | 17,187 | 20,700 | 3,513 | 17% |
| Parts and supplies | 251,878 | 227,100 | (24,778) | -11% |
| Service maintenance agreement | 29,790 | 80,100 | 50,310 | 63% |
| Employee travel and meal | 19,388 | 17,200 | (2,188) | -13% |
| Employee training | 50,142 | 56,400 | 6,258 | 11% |
| Shipping | 9,933 | 13,400 | 3,467 | 26% |
| Subscriptions/membership | 15,464 | 14,500 | (964) | -7% |
| Other expenses | 337,288 | 340,000 | 2,712 | 1% |
| Island Events - Community relations | 102,153 | 85,000 | (17,153) | -20% |
| Total Other Than Personnel Services | 8,335,798 | 8,297,170 | (38,628) | 0% |
| Total operating expenses excluding depreciation | 18,131,004 | 18,200,301 | 69,297 | 0% |
| Operating income (loss) before depreciation | 2,715,899 | 2,633,474 | 82,425 | 3% |
| Depreciation expenses | 3,436,043 | 3,256,000 | (180,043) | -6% |
| Operating income (loss) | $ (720,144) | $ (622,526) | $ (97,618) | -16% |

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# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Roosevelt Island Operating Corporation

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Roosevelt Island Operating Corporation ("RIOC"), a component unit of the State of New York, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise RIOC's basic financial statements, and have issued our report thereon dated May 17, 2013.

## Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered RIOC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIOC's internal control. Accordingly, we do not express an opinion on the effectiveness of RIOC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the RIOC's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIOC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

This report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RIOC's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering RIOC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dadia Valle Vendrola LLP

Elmhurst, New York
May 17, 2013

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## INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
Roosevelt Island Operating Corporation

### Report on Investment Program Compliance

We have audited the Roosevelt Island Operating Corporation's ("RIOC"), a component unit of the State of New York, compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the year ended March 31, 2013.

### Management's Responsibility

Management is responsible for compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program.

### Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of RIOC's investment program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the State of New York Investment Guidelines for Public Authorities. Those standards and the State of New York Comptroller's Investment Guidelines for Public Authorities require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the investment program occurred. An audit includes examining, on a test basis, evidence about RIOC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the investment program. However, our audit does not provide a legal determination of RIOC's compliance.

**Opinion on Investment Program**

In our opinion, the Roosevelt Island Operating Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investment program for the year ended March 31, 2013.

**Report on Internal Control over Compliance**

Management of RIOC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RIOC's internal control over compliance with the types of requirement that could have a direct and material effect on the investment program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the investment program and to test and report on internal control over compliance in accordance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RIOC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. Accordingly, this report is not suitable for any other purpose.

Dadia Valles Vendrola LLP

Elmhurst, New York
May 17, 2013